Keep America Connected!

National Campaign for Affordable Telecommunications

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August 4, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

Re: Comments of Keep America Connected In the Matter of the Application by BellSouth for Provision of In-Region, Interlata Services in Louisiana;
CC Docket No. 98-121

Dear Ms. Salas:

Please find enclosed an original and eleven copies of comments filed by Keep America Connected, the National Association of Commissions for Women, the National Hispanic Council on Aging and the United Homeowners Association in the above referenced proceeding. You may reach me at (202) 842-4080 if you have any questions. Thank you for your assistance.

Sincerely,

Angela Ledford

Angela Ledford
Executive Director
Keep America Connected

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Executive Director

Keep America Connected!

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Before the

FEDERAL COMMUNICATIONS COMMISSION

Washington, D.C.

In the matter of the	)	
Application by BellSouth	)	
for Provision of	)	CC Docket No. 98-121
In-Region, Interlata	)	
Services in Louisiana	)	

COMMENTS OF

KEEP AMERICA CONNECTED

NATIONAL ASSOCIATION OF COMMISSIONS FOR WOMEN

NATIONAL HISPANIC COUNCIL ON AGING

UNITED HOMEOWNERS ASSOCIATION

Keep America Connected, the National Association of Commissions for Women, the National Hispanic Council on Aging and the United Homeowners Association submit the following comments in support of the above referenced proceeding.

Keep America Connected (KAC) is a coalition of organizations representing older Americans, people with disabilities, rural and inner city residents, people of color, low income citizens, labor and local phone companies working together to ensure affordable access to modern telecommunications for all Americans.

The National Association of Commissions for Women (NACW) represents local commissions established to promote the interests of women in cultural, social, and economic fields. It supports policies and programs that empower women to make informed choices about all aspects of their lives. NACW has been active in the debate on telecommunications reform, supporting legislative and regulatory initiatives to enhance competition, thereby creating new options and services for women as consumers and in their businesses.

The National Hispanic Council on Aging (NHCA) represents the interests of older Hispanic Americans in a variety of issues, including telecommunications. NHCA has worked actively in support of policies that promote the development of competition in all telecommunications markets as we believe that competition will create lower prices, more choices and better services for all Americans, particularly older Americans. It believes that lower prices for long distance service is particularly important for older Americans living on fixed incomes who rely on long distance telephone service to stay in contact with family members and friends across the country and around the world.

The United Homeowners Association (UHA) is a national, nonprofit, membership based organization that represents the interests of homeowners. UHA has an active communications advocacy program on behalf of its members and has promoted the interests of homeowners in telecommunications to Congress, before the FCC and in the Courts.

KAC, NACW, NHCA and UHA believe that BellSouth's entry into the long distance market is in the public interest. Entry of a new, major competitor in the long distance market will bring substantial benefits to consumers including more choices, lower rates and new and innovative products and services.

Consumers are still waiting to realize the benefits of meaningful competition in the long distance market promised by the 1996 Telecommunications Act. Since the Act passed, consumers have not seen substantial savings, and in many cases, their long distance bills have increased. In September 1997, a study by KAC concluded that consumers were not benefiting from access charge reductions. KAC's report titled, "In Search of Savings," found that increased long distance competition would push carriers to pass through savings and ensure that consumers see the benefits of access charge reform. (Appendix 1)

In May 1998, KAC did a follow-up study entitled "Still in Search of Savings." The study found that most consumers are paying more for their long distance calling today than they were before access rate reform. It found that longer daytime calling periods, new surcharges, increased rates for directory assistance and calling cards and new fees designed to recover the cost of access charges have all contributed to the rise in long distance bills. The report concluded that consumers would only see real savings when the FCC mandates that the long distance companies pass through access reductions to consumers or allows the entry of local phone companies into the market. (Appendix 2)

Introducing a new and significant competitor, like BellSouth, into the long distance market is the answer to breaking the existing long distance oligopoly. The three major long distance companies control approximately 88% of the market, giving them control over pricing. Real competition in long distance will force rates down and bring consumers the rewards of a truly competitive marketplace.

BellSouth's entry into long distance will also spur increased competition in the local service market. For too long, residential consumers have been denied a choice of local telephone service. Current market incentives have created a rush to provide local service to the business market, but little interest in offering service to the less profitable residential market. We believe that Bell entry will provide a powerful market incentive to serve all consumers by making it essential for providers to compete.

"Consumers on Hold," a study Keep America Connected conducted last fall, illustrates the distorting effects keeping the RBOCs out of long distance has had on the marketplace. The study included a survey of the Louisiana local service market. It found four companies providing local service to Louisiana business customers but not one company offering local service to residential customers. The study concluded that Bell entry into long distance will provide a tremendous incentive for long distance companies to provide local residential service as a way of keeping their long distance customers. (Appendix 3)

Since the release of "Consumers on Hold," competition has grown in many areas of the Louisiana telecommunications market. Six wireline competitive carriers are currently providing facilities-based local telephone service in Louisiana and approximately 25 companies have entered the market through resale.

In addition, consumers are starting to use PCS to meet their local service needs. BellSouth cited in its application a study of PCS users in Louisiana, which illustrates that, for some consumers, PCS is a viable economic alternative to wireline service. The study found that 26 % of Louisiana PCS subscribers currently rely on PCS as their primary telephone service and 5% of PCS customers have actually eliminated wireline service and replaced it with PCS. Wireless providers have even begun marketing PCS as a substitute for traditional wireline local service. For example, a recent AT&T advertisement touted PCS service as a way to "make your wireless phone your only phone."

The growing local service market and the emergence of PCS as a local service alternative are encouraging. Business customers are enjoying the benefits of increased competition in the local market. Residential consumers are also beginning to see competition and some are choosing PCS over a traditional wireline telephone. BellSouth's entry into long distance will provide the incentive needed for long distance companies to serve all consumers, not just the most profitable ones. It will spur even greater facilities-based local service competition and ensure that all consumers receive the benefits envisioned by the 1996 Telecommunications Act.

The Louisiana Public Service Commission voted unanimously to endorse BellSouth's second application to enter the state's long distance market. It found that BellSouth has met its obligations under the 1996 Telecommunications Act and that consumers of local and long distance phone service would benefit from BellSouth's entry into the long distance market.

KAC, NACW, NHCA and UHA re-affirm their support for the BellSouth application. We urge the FCC to approve the application so that all Louisiana consumers can realize the benefits of meaningful competition in both the long distance and local markets.

Respectfully submitted,

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August 4, 1998

APPENDIX 1

"In Search of Savings"

Keep America Connected!
A National Campaign for Affordable Telecommunications

Presents

In Search Of Savings:

A Look at Long Distance Phone Bills After Access Reform

September 24, 1997

Executive Summary

Keep America Connected sought to determine whether residential customers will save money as a result of the FCC decision to lower access charges by $1.7 billion. Unfortunately, our analysis shows that the long distance industry, by and large, has used a variety of devices to hold on to the money, instead of passing the full amount of savings along to their customers.

Access charges are the fees that long distance companies pay to the local phone company to start and complete a call. Long distance companies argued that these fees kept long distance rates higher than necessary and implied (and, some cases, promised) they would pass along any reduction in these fees to consumers. Keep America Connected worked to keep these fees contributing to quality, low-cost local service -- and to make sure consumers received the benefit of any savings reduction in access charges. The FCC failed to enact Keep America Connected's recommendation and here's what happened.

Summary of Findings

- FCC Chairman Reed Hundt claimed that the "typical" or average residential customer's bill would drop from $22.50 a month to $20.65 a month. Keep America Connected's analysis of long distance company rates and found that rates for the FCC's typical caller were just as likely to go up as down.
- Only two of the nation's long distance companies reduced the cost of their "standard" (most expensive) rates.
- Sprint standard rate customers' phone bills likely went up by as much as $2.11/month. Matrix, LCI and WorldCom customers on basic rates stayed the same or went up by as much as $1.45.
- Customers who have subscribed to the heavily marketed flat rate "discount" plans did not benefit much from the FCC's access charge decision.
- Rates for many carriers' cheapest plans are more expensive now than before access reductions were made.
- By phasing out some discount plans and aggressively promoting others, the long distance carriers may be making up any amount of access savings they passed along to customers.
- Long distance carriers are raising the costs of long distance by extending daytime calling periods, raising fees on calling cards, and charging more for directory assistance.

Introduction

In May, amid great fanfare, the Federal Communications Commission (FCC) announced new rules for universal service and long distance access charges. After months of struggling through the competing claims and demands of the local phone companies, long distance companies, consumer groups, and a wide array of other interest groups, the Commission proudly proclaimed that it had established the rules necessary to implement the 1996 Telecommuncations Act and that consumers would save money as a result.

The consumer savings heralded by the FCC were largely the result of reductions in access charges, the fees long distance companies pay local telephone companies to connect long distance calls. Access charges were reduced by $1.7 billion on July 1, 1997. Since 1991, the major long distance companies, AT&T, MCI, and Sprint, have increased rates in lockstep, notwithstanding the fact that access charges were decreasing (see Chart 1).

In a major departure from past practices, AT&T promised to lower long distance rates. [1] MCI ultimately followed suit.[2] AT&T and MCI reduced their basic or standard rates by 5 percent during the daytime, 5 percent in the evening, and 15 percent at night and on weekends. The nation's third largest long distance company, Sprint, made no such commitment and, to date, has not reduced basic rates to reflect the access charge reductions ordered by the FCC.

FCC Chairman Reed Hundt claimed that the "typical," or average, residential customer would save more than 8 percent on long distance as a result of the Commission's action. According to the FCC the average customer's long distance bill would drop from $22.50 a month to $20.65 a month.

Average Customer Savings

Keep America Connected[3] set out to find out what happened to the "typical" residential long distance customer as described by Chairman Hundt. He/she was hard to find.

Long distance prices are very complicated. Rates vary from company to company and from calling plan to calling plan. The most thorough analysis of long distance prices is prepared

[1] "AT&T Reaction to FCC Plan to Reform Access Fees, Universal Service," AT&T press release, May 7, 1997.

[2] "FCC Decision Takes First Step Towards Lowering Excessive Access Charges," MCI statement, May 7, 1997

[3] Keep America Connected is a coalition of organizatinions representing older Americans, people with disabilities, rural and inner city residents, people of color, lower income citizens, labor and local phone companies. The campaign's agenda is to ensure accessible telecommunications for daily life and to enact policies that lead to a modern information infrastructure available to all people.

Trends in Long Distance Rates and Exchange Access Charges

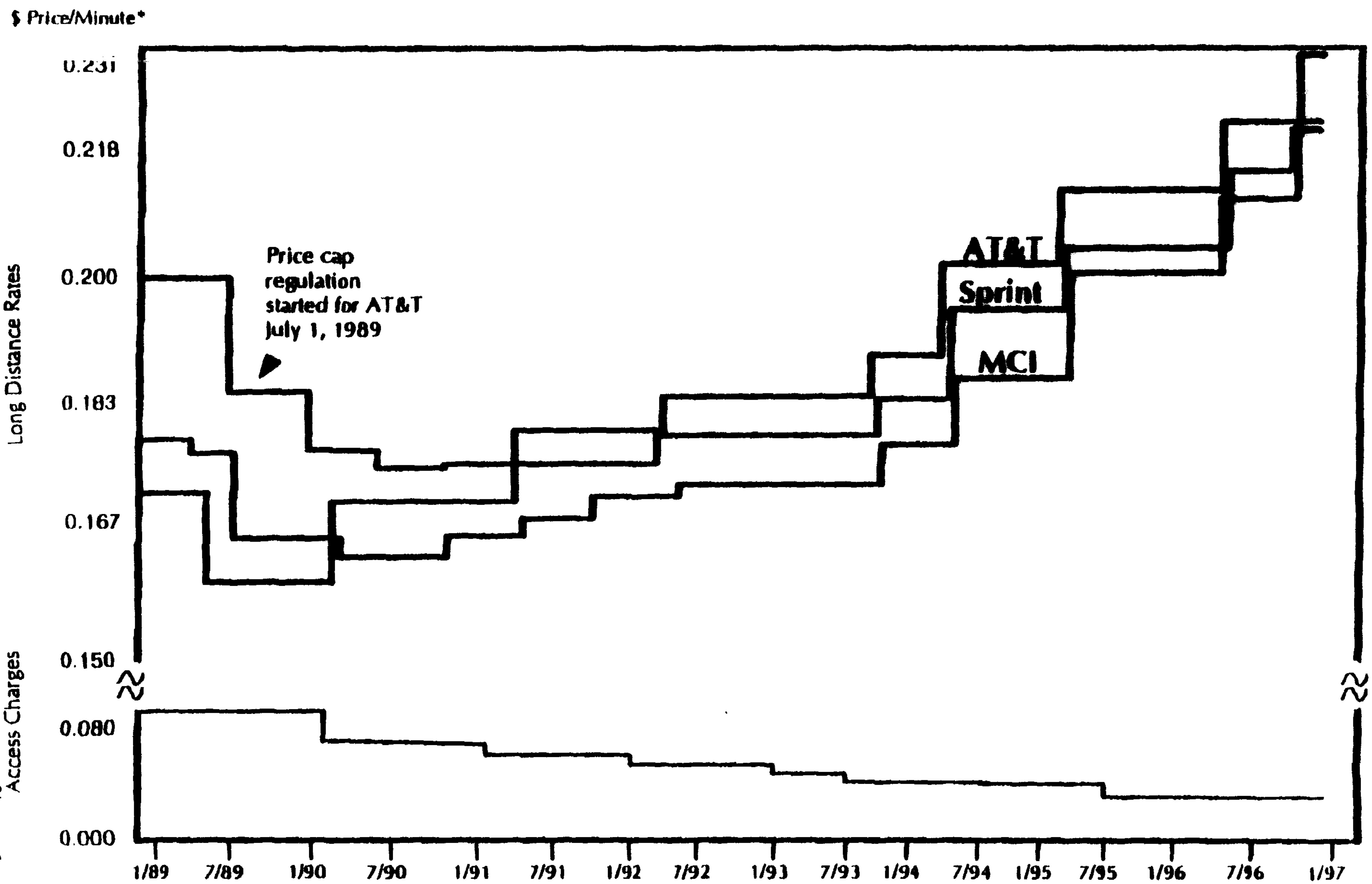

Chart 1

*Long distance rates based on the average price per minute for basic service.
Source: WEFA Group and FCC Tariff Filings

regularly by the Telecommunications Research and Action Center (TRAC).[4] Four times a year, TRAC updates its residential and small business long distance price comparisons that track the significant and subtle changes in long distance rates and services of the nation's leading long distance carriers.

TRAC compares the costs for 18 different long distance calling patterns or baskets[5] for 35 different calling plans[6] offered by seven of the largest long distance companies.[7] The calling baskets go beyond simple calculations of per minute rates. The baskets include a representative sampling of directory assistance and calling card calls to more realistically represent a consumer's bill at the end of the month.

Keep America Connected obtained copies of TRAC's March 1997 and September 1997 residential charts to see just what happened to the FCC's "typical" customer. Of the 631 analyses done by TRAC in March, 46 were in the range of $20.00 to $25.00 per month, approximating the FCC's typical customers.[8] We were able to make 30 identical comparisons with TRAC's September 1997 chart.[9] In 9 cases the cost of monthly long distance went up, in 10 cases it stayed the same, and in only 11 cases did the cost of long distance actually go down. [See Table 1]

As you can see, the result is a mixed bag for TRAC's average or typical residential customer. Savings ranged from 42 cents to $3.03. Potential increases in the typical callers' phone bill ranged from a penny to $2.11.

Standard Rate Customers

So, who are the residential customers who will reap the benefits of the FCC's new access charge rules? They are, by and large, some, but not all, standard rate customers.

In a report issued earlier this year, the United Homeowners Association (UHA) estimates that approximately 60 percent of long distance residential customers are paying basic rates.[10]

[4] TRAC is a non-profit, tax exempt, membership organization based in Washington, DC. Its goal is to promote the interests of residential telecommunications customers. Twice a year, TRAC's staff researches residential long distance rates and publishes their findings in Tele-Tips™.
[5] A calling basket represents a hypothetical calling pattern containing a set amount of minutes per month.
[6] A calling plan is a program offered by a long distance carrier providing specific rates and services.
[7] AT&T, MCI, Sprint, Frontier, LCI, Matrix, and WorldCom.
[8] FCC's typical consumer was represented in TRAC's 12 - 18-call call baskets, totalling from 106 to 179 minutes of calling,
[9] Some plans were no longer offered by the carriers, and some were taken off at the request of the carrier.
[10] "Charging for Residential Long Distance Service: Who is Paying Too Much," Prepared for the United Homeowners Association by Dwight R. Lee, Ramsey Professor of Economics and Private Enterprise, University of Georgia, Athens Georgia.

COMPARISON OF AVERAGE MONTHLY HOUSEHOLD BILLS
MARCH 1997 - SEPTEMBER 1997

Keep America Connected obtained copies of TRAC's March 1997 and September 1997 residential charts to see just what happened to the FCC's "typical" customer. Of the 631 analyses done by TRAC in March, 46 were in the range of $20.00 to $25.00 per month (12-18 calls per month or about 86-179 minutes), approximating the FCC's typical customer. We were able to make 38 identical comparisons with TRAC's September 1997 chart. In 13 cases the monthly cost of long distance service went down, in 16 cases it stayed the same, and in 9 cases it

	Average Daily Use			Heavy Daily Use			Heavy Night/Weekend Use		
Standard Rate Plans	March	Sept.		March	Sept.		March	Sept.	
AT&T Dial-1 Standard				$24.12	$23.14	- $0.98	$24.58	$21.55	- $3.03
Frontier Dial-1				$24.31	$24.31	0	$23.59	$23.60	+ $0.01
LCI Basic	$24.87	$24.87	0	$23.18	$23.18	0	$23.34	$23.34	0
Matrix Dial-1	$20.58	$21.08	+ $0.50						
MCI Dial-1 Standard				$23.99	$23.57	- $0.42	$24.45	$22.34	- $2.11
Sprint Standard				$24.12	$24.91	+ $0.79	$24.58	$23.49	- $1.09
WorldCom MTS	$21.29	$22.44	+ $1.15				$22.64	$21.03	- $1.61
Flat Rate Plans with Multiple Time Periods									
AT&T Simple Rate									
Frontier HomeSaver									
LCI All America Plan				$24.96	$24.96	0			
LCI Two Rate							$24.66	$24.66	0
Matrix SmartWorld							$23.94	$23.94	0
Sprint Sense									
WorldCom Home Advantage	$24.70	$26.40	+ $1.70						
Flat Rate Plans with a Single Time Period									
AT&T One Rate							$21.20	$21.20	0
AT&T One Rate Plus				$24.65	$24.65	0	$20.10	$20.10	0
LCI Single Rate				$23.51	$23.51	0	$20.26	$20.26	0
Matrix Flat Rate I				$22.44	$22.44	0			
MCI One (after July 15, 1997)				$24.93	$24.93	0	$20.68	$17.23	- $3.45
MCI One (before July 15, 1997)									
Sprint Sense Day				$24.30	$26.05	+ $1.75	$20.60	$21.35	+ $0.75
WorldCom Home Advantage Easy Plan									
Discount Plans Based On Consumer Calling Patterns									
AT&T True Reach				$21.71	$22.06	+ $0.35	$22.12	$20.78	- $1.34
AT&T True Savings									
Matrix SmartWorld Basic									
MCI Friends and Family	$24.03	$22.56	- $1.47	$22.65	$21.43	- $1.22			
MCI Friends and Family Free									
Sprint Sense with the Most									
Sprint The Most II				$24.12	$24.91	+ $0.79	$24.58	$23.49	- $1.09
Term Commitment Plans									
Matrix SmartWorld Basic w/Discount									
MCI One w/Cash Back (after July 15, 1997)									
MCI One w/Cash Back (before July 15, 1997)*									
Sprint Sense w/Cash Back							$22.41	$25.02	+ $2.61
Loyalty/Rewards Plans									
AT&T One Rate w/True Rewards				$21.71	$22.06	+ $0.35	$21.20	$21.20	0
AT&T True Reach w/True Rewards							$22.12	$20.78	- $1.34
AT&T True Savings w/ True Rewards									

TABLE 1 Source: TRAC 9/24/97

These are the most expensive rates a customer can pay. Consumers often end up on these plans when they establish local service and are asked to designate a long distance carrier. The consumer may not know about different discount plans and the local phone company only asks them to designate a company, not a plan. Unless the consumer actively requests a discount plan or their long distance company assigns them to a calling plan, they will pay the highest rates allowed.

The July cut in basic rates implemented by AT&T and MCI translated into real savings for many, but not all residential customers on standard calling plans. AT&T and MCI standard rate customers spending less than $25 a month on long distance saw a reduction in their bills that ranged from $.42 to $3.03, a 1.75% to 12.33% decrease.

But Sprint standard rate customers' phone bills most likely went up by $.79 to $2.11. Matrix, LCI and WorldCom customers on basic rates stayed the same or went up by as little as a penny or as much as $1.45. (See Table 2.)

The increases were caused not by an increase in the per minute rate, but by other, more subtle changes in the costs of long distance calling. Sprint extended its daytime calling period for basic rates from 8:00 AM to 5:00 PM to 7:00 AM to 7:00 PM, collecting their largest per minute rate for an additional three hours every day. MCI quickly followed suit. Day time rates are the most expensive. As a result, some Sprint customers on the company's standard rate plan will pay more for long distance service.[11]

Other increases for long distance services included:

- MCI and WorldCom raised their long distance directory assistance charges; MCI's LDDA went up 20 cents while WorldCom's went up 19 cents.
- Sprint raised the cost of using a phone card. Sprint's surcharge for using the card went from 30 cents to 60 cents on every call made -- a 100 percent increase from the $0.30 charge reported in TRAC's March 1997 chart.

Calling Plan Customers

Keep America Connected's analysis reveals that residential customers on discount calling plans probably have not seen any benefit from access charge reductions.

Residential customers on the heavily marketed flat rate calling plans will not save much as a result of the FCC's decision. Flat rate plans generally stayed the same. According to spokesman Paul Reiser, residential customers on AT&T's One Rate plan are still paying $0.15 per minute of long distance service. And Candace Bergen reminds us that Sprint Sense customers are still paying $0.25 per minute for peak and a dime a minute for off-peak calling.

[11] Also Sprint customers on discount plans based on standard rates will pay more.

COMPARISON OF AVERAGE MONTHLY HOUSEHOLD BILLS FOR STANDARD RATES MARCH 1997 - SEPTEMBER 1997

The July cut in basic rates implemented by AT&T and MCI translates into real savings for many, but not all, **residential** customers on standard calling plans. AT&T and MCI standard rate customers spending less **than $25** a month (12 calls or 86-121 minutes) on long distance saw a reduction in their bills that ranged from $0.42 to $3.03, a 1.75% to 12.33% decrease. **But Sprint standard rates customers' phone bills most likely went up by $0.79 to $2.11. Matrix, LCI, and WorldCom customers on basic rates stayed the same** or went up by **as little as a penny or as much as $1.45.**

Average Daily Use (12 Calls / 106 Minutes)

	March	Sept.	Diff.	%
AT&T Dial-1 Standard	$25.59	$24.25	- $1.34	-5.24%
Frontier Dial-1	$27.18	$27.18	+ $0.00	0.00%
LCI Basic	$24.87	$24.87	+ $0.00	0.00%
Matrix Dial-1	$20.58	$21.08	+ $0.50	2.43%
MCI Dial-1 Standard	$25.46	$24.78	- $0.68	-2.67%
Sprint Standard	$25.59	$27.70	+ $2.11	8.25%
WorldCom MTS	$21.29	$22.44	+ $1.15	5.40%

Heavy Daily Use (12 Calls / 86 Minutes)

	March	Sept.	Diff.	%
AT&T Dial-1 Standard	$24.12	$23.14	- $0.98	-4.06%
Frontier Dial-1	$24.31	$24.31	+ $0.00	0.00%
LCI Basic	$23.18	$23.18	+ $0.00	0.00%
Matrix Dial-1	$19.08	$19.48	+ $0.40	2.10%
MCI Dial-1 Standard	$23.99	$23.57	- $0.42	-1.75%
Sprint Standard	$24.12	$24.91	+ $0.79	3.28%
WorldCom MTS	$18.77	$20.22	+ $1.45	7.73%

Heavy Night/Weekend Use (12 Calls / 121 Minutes)

	March	Sept.	Diff.	%
AT&T Dial-1 Standard	$24.58	$21.55	- $3.03	-12.33%
Frontier Dial-1	$23.59	$23.60	+ $0.01	0.04%
LCI Basic	$23.34	$23.34	+ $0.00	0.00%
Matrix Dial-1	$19.89	$20.53	+ $0.64	3.22%
MCI Dial-1 Standard	$24.45	$22.34	- $2.11	-8.63%
Sprint Standard	$24.58	$23.49	- $1.09	-4.43%
WorldCom MTS	$22.64	$21.03	- $1.61	-7.11%

Several companies made changes to their calling plans that could mean higher rates. AT&T no longer promotes Simple Rate -- their $0.25 per minute peak/$0.10 per minute off-peak plan. MCI no longer offers Friends and Family Free, which gave customers who spent $10 or more per month up to one hour of free calls to other MCI customers. But the company added a new plan based on its MCI One -- MCI One with Cash Back.[12] Sprint no longer offers Sprint Sense with Most Enhancement and Sprint Sense with the Most with Cash Back.

In addition, consumers are paying more for other long distance services. MCI, for example, raised their long distance directory assistance charges 20 cents, from $0.95 per call to $1.15 per call, a 15.8 percent increase. Consumers using Sprint's FONCARD will now pay a $0.60 surcharge on every call made -- a 100 percent increase from the $0.30 charge reported in TRAC's March 1997 chart. LCI raised its calling card off-peak rate from $0.18 per minute to $0.20 per minute. And WorldCom raised its long distance directory assistance charge from $0.64 to $0.85.

To make some sense out of what all these changes mean to residential customers, Keep America Connected looked, again, at the long distance analyses done by TRAC.

For nine of TRAC's 18 calling baskets[13] with prices ranging from $15 to $40 per month, Keep America Connected compared each carrier's the best plan in March 1997 and September 1997. The results of that analysis is presented in Table 3. Of the 63 cases examined, in 21 cases the rate for the carrier's cheapest plan went up, in 25 cases it stayed the same, and in 17 cases it decreased. The lowest price calling plan for consumers spending less than $40 a month went up 33% of the time, stayed the same 39% of the time and went down 26% of the time.

For example, for customers who make 18 long distance calls a month, (totalling 179 minutes), mostly at night or on the weekends, the best AT&T plan in March 1997 was Simple Rate, costing $25.85. In September, the best AT&T plan was True Reach, costing $28.58 per month, a 10 percent increase. The best MCI plan for the same customers in March 1997 was MCI Friends and Family Free, costing $26.71. In September, the best MCI plan was MCI One with Cash Back, costing $24.34, a nine percent decrease.

[12] MCI One is a flat rate calling plan that allows consumers to choose a "cash back" option. After a period of a year, the customer receives a check for the amount of 20% of the year's charges. The option is no longer available.

[13] Looking at the calling baskets with prices ranging from $15 to $40 includes the FCC's typical customer and provides a larger sampling of data.

COMPARISON OF LOWEST COST CALLING PLAN
MARCH 1997 - SEPTEMBER 1997

Average Daily Use

12 Calls / 106 Minutes

	March	Sept.	Diff.	%
AT&T	$18.30	$19.57	+ $1.27	7%
MCI	$17.93	$13.75	- $4.18	-23%
Sprint	$18.85	$19.85	+ $1.00	5%
Frontier	$16.95	$16.95	+ $0.00	0%
LCI	$17.88	$17.88	+ $0.00	0%
Matrix	$16.12	$16.48	+ $0.36	2%
WorldCom	$17.00	$17.27	+ $0.27	2%

18 Calls / 159 Minutes

	March	Sept.	Diff.	%
AT&T	$29.20	$27.65	- $1.55	-5%
MCI	$28.08	$21.65	- $6.43	-23%
Sprint	$25.34	$27.72	+ $2.38	9%
Frontier	$25.43	$25.40	- $0.03	0%
LCI	$27.27	$27.27	+ $0.00	0%
Matrix	$25.48	$25.48	+ $0.00	0%
WorldCom	$24.70	$26.38	+ $1.68	7%

Heavy Daily Use

12 Calls / 86 Minutes

	March	Sept.	Diff.	%
AT&T	$16.70	$16.70	+ $0.00	0%
MCI	$15.93	$12.04	- $3.89	-24%
Sprint	$15.85	$16.85	+ $1.00	6%
Frontier	$18.25	$18.25	+ $0.00	0%
LCI	$14.98	$14.98	+ $0.00	0%
Matrix	$14.71	$14.71	+ $0.00	0%
WorldCom	$18.60	$14.49	- $4.11	-22%

18 Calls / 129 Minutes

	March	Sept.	Diff.	%
AT&T	$24.65	$24.65	+ $0.00	0%
MCI	$24.93	$18.77	- $6.16	-25%
Sprint	$24.30	$26.05	+ $1.75	7%
Frontier	$27.35	$27.35	+ $0.00	0%
LCI	$23.51	$23.51	+ $0.00	0%
Matrix	$22.44	$22.44	+ $0.00	0%
WorldCom	$27.10	$22.21	- $4.89	-18%

Heavy Night and Weekend Use

12 Calls / 121 Minutes

	March	Sept.	Diff.	%
AT&T	$15.45	$20.10	+ $4.65	30%
MCI	$16.80	$14.42	- $2.38	-14%
Sprint	$14.55	$15.30	+ $0.75	5%
Frontier	$14.43	$14.43	+ $0.00	0%
LCI	$14.43	$14.43	+ $0.00	0%
Matrix	$14.69	$14.69	+ $0.00	0%
WorldCom	$14.69	$14.75	+ $0.06	0%

18 Calls / 179 Minutes

	March	Sept.	Diff.	%
AT&T	$25.95	$28.58	+ $2.63	10%
MCI	$26.71	$24.34	- $2.37	-9%
Sprint	$22.41	$25.02	+ $2.61	12%
Frontier	$25.66	$25.65	- $0.01	0%
LCI	$24.66	$24.66	+ $0.00	0%
Matrix	$23.94	$23.94	+ $0.00	0%
WorldCom	$26.58	$26.70	+ $0.12	0%

Overall, MCI customers seeking the least cost plan fare far better than AT&T and Sprint customers. Of the nine cases examined for each company, the price for MCI's lowest cost plan decreased in each case. For AT&T, the price for the lowest cost plan increased four times, decreased only once, and stayed the same four times. In all nine cases the cost for Sprint's lowest cost plan increased.

The best strategy for the consumer who wishes to see any savings from access charge reform is to shop around. Only AT&T and MCI basic rate customers saw any immediate per minute rate reductions. For other consumers to see any benefit from access reform, they must be aware of changes in calling plans and request a change of plans and maybe a change in carrier. Sprint and MCI announced new promotions in the last week that could provide savings to consumers with very specific calling patterns (heavy Sunday or Monday evening callers). But consumers must keep a careful watch on their total monthly bill to see if they are getting real rate reductions.

Conclusions

After a thorough analysis of long distance rates since the July 1, 1997 access charge reduction, there is reason to be concerned that the long distance industry is not passing those savings along to consumers in the manner that was intended by the Federal Communications Commission. In fact, our analysis indicates that many consumers may see their long distance bills go up.

The Federal Communications Commission should launch an investigation of the carriers' handling of the access charge reduction and their willingness to pass through access charges to consumers. It should look at which companies, if any, passed all the savings on to consumers, what was the aggregate amount of the pass through, and how much was it offset by fee increases and other revenue raising devices.

It is important that these questions be answered in light of the fact that long distance companies should see access charges drop by go down by $18 billion over the next five years. In the past, long distance companies have pocketed much of these savings. If the effect of this highly publicized first round of rate reductions indicates what consumers can expect from future access charge reductions, the FCC needs to take steps to ensure real rate reductions take place.

Ultimately, only increased competition will push these carriers to pass along these savings. The FCC should move quickly to break the big three long distance carriers' dominance in the long distance market. Allowing local phone companies to provide long distance service will create more competition in the long distance market and force rates down.

APPENDIX 2

"Still in Search of Savings"

Keep America Connected:

STILL In Search of Savings:

A Look at Long Distance Bills One Year After Access Reform

May 25, 1998

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Still In Search Of Savings: Many Consumers See Long Distance Bills Rising

A report by Keep America Connected, a coalition of organizations representing older Americans, people with disabilities, rural and inner city residents, people of color, low income citizens, labor and local phone companies working together to ensure affordable access to modern telecommunications for all Americans.

Executive Summary

Last September, Keep America Connected released a report that cast great doubt on whether consumers were seeing the savings the FCC had predicted as a result of access charge reform. Our updated analysis using April 1998 long distance rates indicates that:

Most consumers are paying more for long distance today than they were before access reform.

How did this happen? Long distance companies are failing to reduce rates and pass along savings to consumers from access charge reductions while, simultaneously, imposing new fees to recover access charges.

The new fees are a result of the FCC's restructuring of the way local phone companies bill long distance companies for connecting their customers' calls. The FCC changed the way the cost of access is calculated, but it did not increase the costs. In fact, the cost of access charges went down. However, rate restructuring gave the long distance companies the excuse they needed to impose these new fees on consumers.

The new fees have taken a variety of forms. AT&T calls it the "Carrier Line Charge," and assesses it monthly.[1] AT&T charges $0.95 to their non-standard rate customers (although AT&T sent a letter to the FCC on May 1, 1998, indicating that their standard rate customers will soon also be assessed these fees), MCI charges $1.07, and Sprint charges $0.80.

The FCC took issue with the imposition of these charges unless consumer rate reductions were also implemented. Chairman Kennard reviewed AT&T, MCI, and Sprint's tariffs after access reduction and concluded, "although these companies have added various charges,...these charges were not accompanied by a corresponding simultaneous reduction in per-minute rates."[2]

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[1] MCI calls its new fee the "National Access Fee" and Sprint calls its new fee the "Presubscribed Line Charge."
[2] Letter to Michael C. Armstrong, Chairman & CEO of AT&T, from William E. Kennard, Chairman of the Federal Communications Commission. February 26, 1998.

Chairman Kennard asked the long distance companies to provide support for their claims that they had passed along access reductions. Instead of answering, they submitted theoretical models of consumer behavior and complicated analyses of average revenues minus costs. Rarely did the carriers mention specific rates they had lowered and none documented the numbers of consumers that had changed calling plans or witnessed a drop in their bills as a result of rate changes made possible by access reform.

KAC took a simpler approach. We reviewed cost comparisons for 18 different consumer calling patterns with rates of the "big three" long distance companies to see what the effect of the changes in long distance pricing structures has been. Here's what we found:

Summary of Findings

- **Most consumers who subscribe to a non-standard rate calling plan had higher monthly bills in April 1998 than in September 1997.**

- Of the 216 comparisons made using 18 different hypothetical calling patterns and 12 different calling plans before adding the Carrier Line Charge, consumers were paying more for long distance service in 53% of the cases and paying less in only 28% of the cases.

- Of the 216 comparisons made using 18 different hypothetical calling patterns and 12 different calling plans including the new Carrier Line Charges, consumers are paying more in 83% of the cases and paying less in only 17% of the cases.

- The average consumer (12 calls per month, $20-24 per month) subscribing to one of the big three's cheapest calling plans[3] pays on average $0.40 more now than in September 1997.

- Many AT&T customers are paying more for long distance now than before access reform. According to AT&T's recent quarterly report, 45% of its customers are paying standard rates. AT&T imposed a new Carrier Line Charge of $0.95 per month on its other residential customers but did not pass along access charge savings to many of them. In addition, AT&T just recently sent a letter (May 1) to the FCC notifying them that it likely will be adding the Carrier Line Charge to its standard rate customers and even imposing a Universal Service Charge in the coming months.[4]

- Even AT&T standard rate customers may be paying more for long distance than before access reform. Last July, AT&T marginally lowered rates for its Standard Rates and discount plans based on standard rates as part of an agreement with the FCC to pass along access charge reductions. However, shortly after the new rates went into effect, it changed its calling time periods and the way it calculates rates, resulting in higher bills for many.

- Consumers have not seen the savings predicted by the FCC. Last May, during access reform, former Chairman Reed Hundt promised that consumers would see, on average, a reduction of $1.85 on their monthly long distance bills. Our analysis shows that most consumers would have to spend over $100 on long distance to see savings over $1.85.

[3] Using AT&T True Reach, MCI One (Advanced), and Sprint Sense Day for September 1997 and AT&T One Rate Plus, MCI One Extra, and Sprint Sense with Most Enhancement for April 1998.

[4] Mills, Mike. "AT&T Imposing Fee On Residential Users." *Washington Post.* Wednesday, May 6, 1998. Page C11.

Introduction

On May 7,1997, amid great fanfare, the Federal Communications Commission (FCC) announced new rules for universal service and long distance access charges. After months of struggling through the competing claims and demands of the local phone companies, long distance companies, consumer groups and a wide array of other interest groups, the Commission proudly proclaimed that it had established the rules that would save consumers money. Then FCC Chairman Reed Hundt claimed that the "typical," or average, residential customer would save more than 8 percent on long distance as a result of the Commission's action. According to the FCC the average customer's long distance bill was expected to drop from $22.50 a month to $20.65 a month.

The consumer savings heralded by the FCC were largely the result of reductions in access charges – the fees long distance companies pay local telephone companies to connect long distance calls. Access charges were reduced by $1.5 billion on July 1, 1997. Access rates were reduced even further in January 1998. The restructuring changed the way local telephone companies charge long distance companies from a purely per minute fee to one associated with a flat rate calculation. The new calculation was based on the number of lines a long distance company "pre-subscribed" or ordered from local phone companies for the completion of long distance calls. The long distance companies are charged $0.53 per line for the primary line and $1.50 per additional line for each customer. Many of the long distance companies have chosen to use this restructuring as an excuse to pass along the charges to customers on their monthly phone bills.

In a major departure from past practices, AT&T promised to lower long distance rates.[5] MCI ultimately followed suit.[6] AT&T and MCI reduced their basic, or standard, rates by 5 percent during the daytime, 5 percent in the evening, and 15 percent at night and on weekends. In our September report it appeared that these carriers had honored their agreements in terms of rate reductions, but they also appeared to be recovering the reductions in increased calling card, directory assistance charges, and changes in calling time periods. In addition, carriers appeared to be dropping or phasing out their lower cost plans that typically benefit the lower volume consumer.

How Long Distance Bills Are Going Up

In the last year, many long distance carriers made adjustments in the way they bill for their services that generally had the effect of raising rates. Many carriers increased their charges for calling cards, long distance directory assistance and calls from pay phones. While some of these charges were prompted by changes in federal rules, all the carriers "over-recovered" those charges – charging their customers more than the amount of increase they were being charged.

[5] "AT&T Reaction to FCC Plan to Reform Access Fees, Universal Service," AT&T press release, May 7, 1997.
[6] "FCC Decision Takes First Step Towards Lowering Excessive Access Charges," MCI statement, May 7, 1997.

Perhaps the biggest changes, however, were the changes in calling periods and rate structures. AT&T changed its time period scheduling and changed its rates for its standard rate customers from mileage-based to a modified flat-rate. In effect, this lengthened the highest rate time period for calling to 15 hours and shortened the lowest rate periods. Additionally, customers who typically made long distance calls over shorter distances saw their per-minute rates go up.[7] Prior to the change, rates were based on distance. Rates are now based on a "postalized" method, where one rate is charged per minute regardless of distance.

Calling card rates and surcharges, long distance directory assistance charges, pay phone surcharges and the introduction of monthly recurring fees from some companies all contribute to the rise in total costs for long distance service. Below is a list of the various new charges and restructured costs.

Changes in Fees and Rates

New "Access" Charges

- **AT&T** implemented a "Carrier Line Charge," briefly known as the "FCC Access Fee," of $0.95 per account on its non-standard rate customers and plans to extend this fee to standard rate customers in July.
- **MCI** implemented a "National Access Fee" of $1.07 per account on all customers.
- **Sprint** implemented a "Presubscribed Line Charge" of $0.80 per account on all customers.

Payphone Surcharges

- **AT&T, MCI, and Sprint** implemented a payphone surcharge of $0.30 per call on all calling card calls made from a payphone, over-recovering for a $0.284 surcharge that they pay to the pay phone companies. (AT&T's One Rate Calling Card has no surcharge, but requires a monthly recurring fee of $1.00, regardless of whether or not it is used.)

Long Distance Directory Assistance

- Over the past year, **MCI** and **Sprint** have raised their long distance directory assistance charge from $0.95 per call to $1.10 per call.

Changes in Calling Time Periods and Mileage

- **AT&T, MCI,** and **Sprint** all changed their calling time periods over the past year. The highest rate period, referred to as "peak" or "day," was extended and the lower rate time period was shortened.
- **All three** also changed the way that rates are charged. They eliminated the mileage-based rate in favor of a postalized, or flat rate that would be the same regardless of distance. Consumers making interstate calls over relatively short distances saw their calls get more expensive under this system.

Calling Card Rates and Surcharges Were Changed

Rates and surcharges were changed for many calling cards. The cards listed here are examples.

- **AT&T** offered calling cards with a varied rate and a $0.35 surcharge last September. They now feature a flat $0.30 rate with a $0.30 per call surcharge. Its Simple Rate card's surcharge was raised from $0.65 to $0.95 per call.
- **MCI** raised its calling card rate from $0.25 to $0.40 per minute and eliminated its $0.89 per call surcharge.
- **Sprint** changed its calling card from a varied rate to a flat $0.30 per minute and kept its $0.60 surcharge.

[7] Before the time period change, AT&T, along with most other companies, utilized the following time periods for their standard rates: Day – Monday through Friday, 8am to 5pm; Evening – Sunday through Friday, 5pm to 11pm; and night/weekend – all other times. After the time period change, the following schedule was used: peak – Monday through Friday, 7am to 7pm; off-peak – Monday through Friday, 7pm to 7am; and weekend – all other times.

Keep America Connected's Analysis

To assess the effects of AT&T's rate changes and other industry changes, KAC updated its September report, taking a closer look at the big three long distance companies.

The most thorough analysis of long distance prices is prepared regularly by the Telecommunications Research & Action Center (TRAC).[8] Twice a year, TRAC updates its residential long distance price comparison charts, tracking the significant and subtle changes in long distance rates and services of the nation's leading long distance carriers.

TRAC compares the costs for 18 different long distance calling patterns or baskets[9] for 30 different calling plans[10] offered by eight of the largest long distance companies.[11] The calling baskets go beyond simple calculations of per minute rates. The baskets include a representative sampling of calling card, pay phone and directory assistance calls to more realistically represent a consumer's bill at the end of the month. The methodology of the cost comparison is regularly reviewed and agreed to by long distance companies that submit data for the chart.

For our comparison purposes, Keep America Connected reviewed the calling plans of the largest long distance companies- AT&T, MCI, and Sprint - which were represented in the September 1997 and April 1998 editions of TRAC's Tele-Tips™. There were 12 such plans, resulting in 216 different comparisons (see Chart 1). Together, these companies represent 88% of the residential long distance market.

Market Share of Long Distance Companies *Based on Presubscribed Lines*[12]	
AT&T	65%
MCI	15%
Sprint	8%

- In April 1998, in 53% of the 216 comparisons made using 18 different hypothetical calling patterns, consumers were paying more for long distance service than in September 1997, while consumers in only 28% of the cases were paying less. Comparisons indicated bills increasing from September 1997 in 112 cases, decreasing in only 63 cases and staying the same in 41 cases.

- When Carrier Line Charges were assessed, consumers were paying more in 83% of the cases and paying less in only 17% of the cases. Comparisons showed bills rising in 179 cases staying the same in one case and falling in only 36 cases.

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[8] TRAC is a nonprofit, tax exempt, membership organization based in Washington, DC. Its goal is to promote the interests of residential telecommunications customers. Twice a year, TRAC's staff researches residential long distance rates and publishes its findings in Tele-Tips™.

[9] A calling basket represents a hypothetical calling pattern containing a set amount of minutes per month.

[10] A calling plan is a program offered by a long distance carrier providing specific rates and services.

[11] AT&T, MCI, Sprint, Excel, Frontier, LCI, Matrix, and WorldCom.

[12] Rangos Katie and James Zolnierek. "Long Distance Market Shares, Fourth Quarter 1997." Federal Communications Commission. Common Carrier Bureau. Industry Analysis Division. March 1998.